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**FISCAL IMPACT STATEMENT**

**LS 7882**

**BILL NUMBER:** SB 508

**NOTE PREPARED:** Apr 8, 2005

**BILL AMENDED:** Apr 7, 2005

**SUBJECT:** Worker's Compensation Exemption.

**FIRST AUTHOR:** Sen. Clark

**FIRST SPONSOR:** Rep. Torr

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X **GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) *Youth Coaches:* This bill exempts from Worker's Compensation and Occupational Disease Law: (1) a nonprofit corporation that is recognized as tax exempt under Section 501(c)(3) of the Internal Revenue Code to the extent the corporation enters into an independent contractor agreement for the performance of youth coaching services on a part-time basis; and (2) the coaches with whom the corporation enters into the agreement.

*Wage Issues:* The bill requires an employer to make payment to an employee, by semimonthly or biweekly payment, for all wages earned to a date not more than ten business days prior to the date of payment. It specifies that if an employee has left employment voluntarily and the employer does not know the whereabouts or address of the employee, that the employer is not subject to payment of liquidated damages for the failure to pay wages timely until: (1) ten business days have elapsed after the employee has made a demand for the wages; or (2) the employee has given the employer the employee's address. (Current law: (1) requires payment to be made for wages earned to a date not more than ten days prior to the date of payment; and (2) provides that in the event that the employee's whereabouts are unknown, the employer is not subject to payment of liquidated damages until ten days have elapsed after the employee has made a demand for the wages due.)

It permits a wage assignment for payment for: (1) uniforms; and (2) tools and portable equipment.

The bill increases to \$3,000 the amount of the maximum wage claim for which the Commissioner of the Department of Labor may take an assignment.

It repeals and relocates language making it a Class C infraction for an employer to sell merchandise or supplies

to an employee for a price higher than to the public.

The bill repeals chapter concerning the regulation of wage payments, which includes the following provisions: (1) a provision requiring an employer to pay employees in commercial paper; (2) a duplicate provision concerning frequency of wage payments; and (3) a provision containing outdated language concerning liens of laborers.

*Common Construction Wage:* This bill requires that notice of a meeting of a committee to determine the common construction wage must meet requirements for public notice and be published on the Internet. It provides that the common construction wage does not apply to public works projects in which the actual construction costs less than \$250,000.

*Worker's Compensation and Occupational Disease Benefits:* The bill increases worker's compensation and occupational disease benefits. It increases the compensation for permanent partial impairment. It also increases the worker's compensation burial expense allowance to \$7,500.

The bill makes technical corrections.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** *Youth Coaches:* The bill should have no fiscal impact on the state unless the Worker's Compensation Board has to modify any rules or procedures. Any increase in costs could probably be absorbed within existing budget levels.

*Wages Issues:* The impact on the state and local governments would be as an employer and should be a minor impact, if any. Increasing to \$3,000 from \$800 the amount of the maximum wage claim for which the Commissioner of the Department of Labor may take an assignment could increase the administrative costs of the Department of Labor. The increase in costs would probably be minor.

*Common Construction Wages:* The impact on the state would be in the funding of construction projects. In FY 2004 the Division of Public Works of the Department of Administration reviewed 230 public works projects valued at about \$35 M. Of the 230 projects, 187 were under \$150,000 and about 12 were between \$150,000 and \$250,000.

The influence of these changes is expected to vary by project, however, a number of studies suggest that wage determination provisions generally increase the labor cost of public works projects from 5% to 16%. Under this assumption, the saving to the state could be about \$1.07 M based on the number of projects in FY 2004.

However, other studies argue for prevailing wage-type systems on the grounds that they lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force (benefits typically associated with union labor). Under this assumption, the bill could cost the state in the long run, although the additional costs are unknown. Unfortunately, data limitations and questionable methodology limit the conclusiveness of many studies on prevailing wage laws.

Secondary impact: If, as some studies have shown, common wage requirements increase the costs of labor to the state, then lower wages may have the following effects:

- State income tax collections could decrease (assuming no decrease in employment levels), reducing consumption and further decreasing sales tax revenue;
- Debt incurred to finance projects could decrease due to lower project costs, requiring reduced bonding or property taxes; and
- Funds that may have been used for the project could be available for other public works projects. Similarly, capital expenses could be less, making more funding available for noncapital expenses in project budgets.

*Worker's Compensation and Occupational Disease Benefits:* Burial Allowance: The bill increases the compensation for burial expenses from \$6,000 to \$7,500. The impact on the state would be as an employer and would probably be minor. Burial expenses are a small part of worker's compensation expenditures.

(Revised) Average Weekly Wage: This bill increases the maximum average weekly wage used in the determination of compensation for temporary total disability, temporary partial disability, and total permanent disability from \$882 to \$954 (8.2% increase) for FY 2006 and beyond. Medical benefits are determined by the degree of impairment and are not based on the wage. The bill also increases the maximum compensation (exclusive of medical benefits) that may be paid for an injury under the worker's compensation and occupational disease law.

Maximum Compensation: The bill increases the maximum compensation, excluding medical benefits, that may be paid for an injury from \$294,000 to \$318,000 (8.2% increase) for FY 2006 and beyond.

Degree of Impairment: The bill increases the award for disability based on the degree of impairment.

For Each Degree of Impairment from	Current	FY 2006
1-10	\$1,300	\$1,500
11-35	\$1,500	\$1,700
36-50	\$2,400	\$2,700
Over 50	\$3,000	\$3,300

It is difficult to determine the potential cost of these changes. An actuarial analysis of these changes will be performed by the National Council on Compensation Insurance (NCCI). [Note: The results of the actuarial analysis are not currently available. The note will be updated when NCCI finishes their analysis.]

According to the Indiana Compensation Rating Bureau, premiums increased by 3.2% for 2005 and decreased by 1.8% for 2004. Premiums for worker's compensation for 2003 were about \$748 M.

For FY 2004, the state paid about \$2.5 M in worker's compensation benefits, \$2.4 M in FY 2003, and \$2.9 M in FY 2002.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** *See Explanation of State Expenditures.*

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** All.

**Information Sources:**

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